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SUBJECT: EUROPEAN ANTI-FRAUD OFFICE GIVES BULGARIA MIXED
REVIEWS

REF: SOFIA 0499

Classified By: Ambassador Nancy McEldowney for reasons 1.5 (b) and (d).

11. (C) Summary: After issuing a stinging report on Bulgaria in July, the head of the European Anti-Fraud Office (OLAF) Franz-Herman Bruener returned to Sofia August 21-22 to assess the Government's strategy to stem the country's chronic misuse of EU Funds. Bulgaria stands to lose permanently more than USD 700 million in pre-accession funding if the Government cannot convince the European Commission and OLAF by the end of the year that it has the structures and safeguards in place to manage EU funds. On a positive note, Bruener told the Ambassador that Bulgaria has done more in the past five months to improve its record than it had in the last three to four years, and he welcomed the Ambassador's call for close coordination of U.S. and EU anti-corruption efforts. He gave new Deputy Prime Minister in charge of EU Funds Meglena Plugchieva high marks for consolidating responsibility and decision-making on EU funds.

He said high-level government officials are now openly discussing the need for party financing reform and noted that Customs and Law Enforcement entities are now cooperating with OLAF. The Bulgarian Achilles heel remains the judiciary, an institution that "hides behind the law" instead of working with it, as evidenced by the extreme dearth of prosecutions and convictions on cases related to organized crime, corruption and fraud. Bruener reported that Prosecutor General Velchev is not convinced he can produce the results the Commission and OLAF are demanding given the daunting network between shady businessmen and political figures. End Summary.

12. (C) Ambassador met with head of the European Anti-Fraud Office (OLAF) Franz-Herman Bruener and his three-member delegation August 22 to discuss OLAF's assessment of Bulgarian efforts to answer the criticism contained in the harshly-worded EU monitoring reports released in July (reftel). Bruener gave Bulgaria mixed reviews. While Bulgaria had done more in the last five months to improve its handling of EU funds than it had in the last several years, severe systemic problems remain. Bruener praised new Deputy Prime Minister in charge of EU Funds Meglena Plugchieva for her ability to bring order to Bulgaria's EU funds management systems and for her willingness "to be unpopular." He welcomed the "new generation" of employees being hired into the state administrative system and noted a new spirit of cooperation in OLAF's dealings with Customs and Law Enforcement.

13. (C) At the same time, Bruener described what he termed a "highly-organized effort" not only to allow well-connected companies -- some of them patrons of high ranking politicians -- to defraud EU funding mechanisms, but also to cover-up

these unlawful schemes. To break this cozy relationship between shady business and politics, political party financing had to be overhauled. Bruener noted with relief that Prosecutor General Velchev seemed to support the introduction of a new party financing law. Bruener described Velchev as open and willing to cooperate, but, given the web of relationships between business and politics in Bulgaria, Velchev himself was skeptical that he would be able to produce the results demanded by OLAF and the Commission.

¶4. (C) Bruener said the judiciary remains Bulgaria's weakest institution. Instead of working with the law and interpreting it to get needed prosecutions and convictions, prosecutors and judges hide behind the law and use it as an excuse for inaction. Bruener said OLAF is in a difficult position because it cannot demand the prosecutions or convictions of specific individuals, but it was only through such high-level convictions that Bulgaria would be able to show it is serious about reform and capable of handling ever larger sums of EU funding. Bruener sympathized with Prime Minister Stanishev when the PM lamented that Bulgaria was getting conflicting advice on reform. In his August 21 meeting with OLAF, the PM complained that once Bulgaria amended one law to conform to EU recommendations, two more would inevitably have to be rewritten. Since the judiciary can't keep up with the steady stream of new legislation, Bruener told Ambassador he may recommend that the Commission emphasize training of the judiciary rather than more legislative overhaul. To this end, he said, he would pursue with various member states, specifically Germany, the placement of experts to train the Bulgarian judicial system. Bruener also welcomed U.S. efforts to provide further

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training to prosecutors and promised to coordinate so that are our efforts are not duplicative.

¶5. (C) Comment: Bruener was open, candid and seeking to build a closer relationship with us, which would amplify his calls for reform as well as advance our rule of law agenda. We will continue to work with OLAF and the Commission representatives with whom we have established close, if informal, relations, in order to coordinate our efforts on training of the judiciary, money-laundering, conflict of interest and campaign financing. For Bulgaria, the stakes are high. When issuing the July monitoring reports, the Commission suspended more than USD 700 million in pre-accession funding. If Bulgaria does not show real progress -- by mid-November according to Bruener -- much of that funding will be lost forever. Still, it is unclear what exactly Bulgaria must do to secure that funding. The GOB's 80-point action plan, which has not yet been translated into English or transmitted to the Commission, seems unwieldy and unachievable in the near-term. Our message to the Bulgarians will be to undertake a handful of broad, tangible reforms that can be accomplished quickly and completely. Most important, it is not enough just to fire or suspend wrongdoers -- they must be arrested and prosecuted.

McEldowney